P 031431Z DEC 08
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC PRIORITY 1846
DEPT OF TREASURY WASHINGTON DC PRIORITY
INFO GULF COOPERATION COUNCIL COLLECTIVE
IRAN COLLECTIVE
AMCONSUL DUBAI
CIA WASHINGTON DC
NSA WASHINGTON DC
NSC WASHDC

S E C R E T ABU DHABI 001381

NOFORN

TREASURY FOR U/S LEVEY, A/S GARDNER, A/S O'BRIEN, DAS
GLASER, DAS MENDELSOHN
NSC FOR ABRAMS, ZARATE, ALLEN, RAMCHAND
STATE FOR NEA/IR, NEA/ARP
STATE FOR S/CT, EB/ESC/TFS, INL/C/CP
STATE FOR ISN
STATE FOR BURNS
CIA FOR OTI
NSA FOR FTM

E.O. 12958: DNG: CO 11/26/2032
TAGS: AE ECON IR KTFN PREL PTER
SUBJECT: U/S LEVEY PRESSES UAE ON IRAN SANCTIONS

Classified By: Abassador Olson for reasons 1.4 b and d.

¶1. (S) Summary. On 18 November 2008, Treasury Under Secretary Stuart Levey and DCM Doug Greene (in Abu Dhabi) and Paul Sutphin, the Consul General (in Dubai) discussed with UAE counterparts recent U.S., international and UAE steps to increase financial pressure on Iran. In particular, Levey detailed measures targeting Islamic Republic of Iran Shipping Lines (IRISL), including the need to inform international insurance providers about the risks in covering IRISL shipments. He noted the recent USG indictment of the UAE-based Mayrow company and other UAE-based companies identified as facilitators of prohibited trade with Iran. Levey explained the purpose and effect of the cancellation of Iran's U-turn license, namely as a response to international consensus on the threat posed by Iran's banking system as evidenced by FATF advisories. He highlighted Emirates NBD as an outlier in the UAE and the international financial community with respect to its book of business with Iran. Levey shared several SECRET REL and UNCLASS papers on IRISL, the Central Bank of Iran, and companies worldwide facilitating prohibited trade with Iran.

¶2. (S) UAEG officials listed measures quietly implemented by the UAE targeting Iran, including advisories to UAE banks, cutting back on licenses for Iranian businesses, reducing the number of Iranian work and tourist visas, and various cargo searches and interdictions. Levey met in Abu Dhabi with Central Bank Governor Sultan al Suwaidi, Minister of State for Financial Affairs Obaid al Tayer, National Security Advisor and Director of the State Security Department Sheikh Hazza bin Zayed al Nahyan; and in Dubai with Central Bank Vice Chairman Dr. Omar bin Suleiman and Dubai World Chairman Sultan bin Sulayem. End Summary.

THE HIDDEN WAR IN UAE

¶3. (S) U/S Levey encouraged the Central Bank Governor to review the U.S. designation of, and FATF language on, Islamic Republic of Iran Shipping Lines (IRISL). Levey asked Suwaidi to tell UAE banks not to handle IRISL business, explaining that banks handling letters of credit involving IRISL shipments may be subjecting themselves to risks as IRISL has a history of shipping nuclear and proliferation related cargo in contravention of international sanctions. Levey outlined IRISL measures to deceive counterparties and

creditors as to the true nature of its cargo and end users. He advised that Iran employs front companies in Dubai to obscure the true end users of shipped goods and to secure trade finance.

¶4. (S) The Central Bank Governor promised to review the material shared by Levey and consider an appropriate response. Suwaidi encouraged the USG 1) to confront the jurisdictions shipping the banned items, 2) to interdict IRISL ships at sea, and 3) to ask the UAEG to close it ports entirely to IRISL ships. (Note: The Governor's suggestion that the UAEG close it ports to IRISL ships was offered to distract from pressure on the Central Bank. End note.)

¶5. (S/NF) Suwaidi reminded Levey of the unique political and security threats the UAE faces with regard to Iran. Levey encouraged the Governor to take appropriate steps to protect the integrity of the UAE's financial system in line with international and multilateral measures against Iran. Suwaidi confirmed that the UAE has been tightening up on Iran 'step by step.' He pointed to recent press reporting cataloguing Iranian troubles with UAE banks as proof positive. Referencing a recent New York Times Magazine article on Treasury's Iran sanctions, Suwaidi stated that 'there is a hidden war going on in the UAE,' in contrast to U/S Levey's 'overt war.'

¶6. (S) The Governor assessed that Iranian banks are 'not healthy' due to the global financial crisis. He stated that Iranian bank balance sheets have been shrinking for some time, and that as interbank lending declined in the UAE, no UAE banks placed deposits with Melli or Saderat branches in the UAE. However, the Governor noted that Iranian banks had already reduced their reliance on foreign deposits and lending prior to the tightening of international credit markets.

¶7. (S) Abdulrahim al Awadi, head of AML/CTF portfolio for the Central Bank, informed Levey that Iran has reached out to the MENAFATF seeking membership in the regional body. Al Awadi stressed that the UAE and the MENAFATF do not welcome Iran's participation and ask for U.S. support in dodging Iran's overtures.

¶8. (S) Minister of State for Financial Affairs Obaid al Tayer detailed the UAE's commitment to increasing pressure on Iran in line with international consensus. He cautioned U/S Levey on the risks of moving too fast, namely that punitive measure are disproportionately affecting the people of Iran who are more likely to rally around the regime rather than confront it. Al Tayer stressed the need not to alienate the Iranian people and not to hurt legitimate traders who do not support the regime. He underlined the UAE's common position with the U.S. that a nuclear Iran cannot be accepted.

¶9. (S/NF) Al Tayer assured U/S Levey that the UAEG has been straightforward with the USG on the Iran issue and that the results are clearly visible. He expects that Iran's financial sector will further deteriorate come 1st quarter 2009 as banks continue to pull back on credit extended to Iran. Regarding Bank Melli and Saderat branches in the UAE, he offered that they were losing customers slowly and questioned whether accelerating their decline through overt steps was in the best interest of the U.S. Levey reminded al Tayer that Bank Melli's operations in the UAE are part of the larger banking organization, which is involved in substantial illicit conduct. Its presence poses a threat to the integrity of the UAE's financial sector. Al Tayer pointed to a recent announcement guarantying bank deposits in the UAE financial system, and the UAEG's specific decision to exclude Melli and Saderat from this confidence measure. He speculated that the move was not lost on Iran as other international banks, such as HSBC, Standard Chartered and Citi, are covered by the insurance scheme. (Note: Al Tayer is the first UAE finance official to confirm Melli and Saderat's exclusion from the federal deposit guarantee. Al Tayer heads the federal committee convened to address the UAE's liquidity crisis. End note.)

¶10. (S) Levey advised that Emirates NBD needed to be highly vigilant with respect to Iran. As Iran has access to fewer and fewer banking outlets, the likelihood it will abuse its remaining relationships has increased. Levey acknowledged that the trend line with Emirates NBD is positive, but also noted that it needs to move further, and encouraged the Emirates to continue pushing.

CENTRAL BANK OVERHAUL IN THE WORKS

¶11. (S/NF) Newly appointed UAE Central Bank Vice-Governor Dr. Omar bin Suleiman revealed to U/S Levey that he has been personally charged with restructuring the UAE's Central Bank. The undertaking will be overseen by Minister of Presidential Affairs Sheikh Mansour bin Zayed al Nahyan and UAE Prime Minister, Vice President and Ruler of Dubai Sheikh Mohammed bin Rashid al Maktoum. The restructuring team currently will sit in the Dubai International Financial Centre (DIFC) and is likely to include consultants from Boston Consulting Group and McKinsey. Dr. Omar hopes to have an approved implementation plan within six months and expects the execution phase to last roughly one year. The plan will address banking, insurance and capital markets. (Note: Dr. Omar is also the Governor of the DIFC, and his office is located in this facility. End note.)

¶12. (S/NF) Dr. Omar shared that the UAE is currently considering two possible models for its Central Bank: (a) the UK model with a split FSA and BoE structure, or (b) a unified entity housing independent bodies. He believes the integrated model is better suited for the UAE's internal political dynamics. Dr. Omar advised that he is evaluating candidates to succeed the current Central Bank Governor, who is expected to resign within two years. (Note: The Central Bank Governor independently mentioned to Levey that he would leave his post in the next two years. End note.)

¶13. (S/NF) Dr. Omar suggested that the revamped Central Bank would be the single regulatory body overseeing all of the UAE, and would reflect the best practices and international standards embodied in the DIFC's Dubai Financial Services Authority (DFSA). He added that his vision is to export these standards and best practices throughout the region. (Note: The UAE has not been shy about its desire to host a GCC central bank, should GCC monetary union come to fruition. Dr. Omar's vision supports this position. End note.)

¶14. (S/NF) On the subject of Emirates NBD, Dr. Omar recalled that in the late 1990's National Bank of Dubai actively courted Iranian trade business and lobbied the Government of Iran to this end. Dr. Omar said he had participated in such delegations and speculated that NBD management was in a difficult position due to this history. (Note: MBR ordered the merger of Emirates Bank and National Bank of Dubai in March 2007 to create Emirates NBD; neither bank sought the tie up. While on paper the bank has one leadership team and appears as a single entity, in practice the two halves are known to be moving quite sluggishly through the ongoing unification process, and both continue to operate separate branches. End note.)

¶15. (S/NF) U/S Levey shared with Dr. Omar USG concerns about IRISL and the specific risks of UAE banks financing cargo carried on IRISL ships. Dr. Omar promised to review the information carefully and discuss options with the Central Bank Governor. He also informed U/S Levey that Iran knows that the UAE has restrictions in place for Iran, and has been approaching the UAE from 3rd countries in attempts to evade these measures. Dr. Omar asked the USG to share any intel it has on this point to aid the UAE's efforts. U/S Levey put forth to Dr. Omar three specific asks for the UAE to: 1) scrutinize the payment services that UAE banks are providing to Iran, rather than just the Iranian deposits held by Emirati banks, 2) prohibit Emirati banks from providing letters of credit to IRISL, and 3) continue to push Emirates NBD to cut back on the

services it provides to Iran. Dr. Omar responded positively and indicated that he would make an effort to move forward on these asks.

OLSON